

Message Text

LIMITED OFFICIAL USE

PAGE 01 JERUSA 01626 241658Z

22

ACTION NEA-10

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03

CIEP-01 LAB-04 SIL-01 OMB-01 SAM-01 SSM-03 /101 W

----- 108895

R 241412Z NOV 76

FM AMCONSUL JERUSALEM

TO SECSTATE WASHDC 8498

INFO AMEMBASSY AMMAN

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMEMBASSY TEL AVIV

USMISSION USUN NY

LIMITED OFFICIAL USE JERUSALEM 1626

E.O. 11652: N/A

TAGS: ECON, PINS, IS, JO

SUBJ: ISRAELI VAT ON THE WEST BANK AS DECEMBER 1 DEADLINE

APPROACHES

REF: JERUSALEM 1116 AND PREVIOUS

1.

SUMMARY: ACTION OF ISRAELI MILITARY GOVERNMENT IN IMPOSING AN EIGHT PERCENT VALUE ADDED TAX (VAT) ON THE WEST BANK WITH AN EFFECTIVE DATE OF 1 AUG. 76 CAUSED WIDESPREAD OPPOSITION IN THE WEST BANK LEADING TO POSTPONEMENT OF IMPLEMENTATION UNTIL DECEMBER 1. MANY WEST BANKERS BELIEVED THAT THIS TAX WOULD DRIVE SMALL BUSINESSES UNDER AND SEVERELY STRAIN LARGER CONCERNS. EFFORTS TO INDUCE MILGOV TO REDUCE VAT HAVE MET SOME SUCCESS. HOWEVER, MILGOV INTENDS TO GO AHEAD WITH IMPLEMENTATION OF VAT ON WEST BANK AS OF DECEMBER 1 AND WEST BANKERS HAVE WARNED OF STRIKES AND DEMONSTRATIONS IN PROTEST. END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 JERUSA 01626 241658Z

2. WHEN ISRAELI MINISTRY OF FINANCE IMPOSED AN EIGHT PERCENT VAT ON ISRAEL EFFECTIVE JULY 1, 1976, THE MINISTRY DECIDED THAT WEST BANK SHOULD ALSO HAVE AN EQUIVALENT TAX TO EQUALIZE AND STABILIZE TRADE BETWEEN TWO AREAS. MILGOV ISSUED ORDER IMPOSING EQUIVALENT VAT EFFECTIVE AUGUST 1. OPPOSITION TO ORDER DEVELOPED ALONG TWO LINES: NORTHERN WEST BANK CHOSE CONFRONTATION TACTICS AND SOUTHERN WEST BANK DECIDED ON CONSULTATION AND NEGOTIATION METHODS. A GENERAL STRIKE WAS DECLARED ALL OVER THE WEST BANK BEGINNING ON AUGUST 1, AND BY AUGUST 3 THE WEST BANK MAYORS ATTEMPTED TO ADOPT JOINT POLICY REGARDING VAT. IN THE END, MILGOV GRANTED DELAY IN COLLECTING THE TAX UNTIL DECEMBER 1 BUT INSISTED THAT THE TAX BE COMPUTED AS FROM AUGUST 1. WITH DEADLINE NOW APPROACHING, BOTH NORTH AND SOUTH HAVE EMBARKED UPON A JOINT EFFORT TO ATTEMPT A NEGOTIATED SETTLEMENT FOR THIS PROBLEM.

3. VAT GENERATES STRONG OPPOSITION BECAUSE IT DIRECTLY THREATENS MOST OF THE SMALL MERCHANTS, INDUSTRIES AND CASH CROP FRAMERS IN WEST BANK. WEST BANKERS RESENT MILGOV TAXES BECAUSE TAXES ARE NOT SPENT ON WEST BANK NEEDS. A MILGOV NEWS RELEASE (OCTOBER, 1976) SHOWS INCOME TAX AND TRANSFERS TO THE GOVERNMENT OF IL 139 MILLION AND TRANSFERS FROM THE GOVERNMENT OF ONLY IL 45 MILLION. WEST BANKERS FEEL THAT FUNDS GENERATED FROM VAT WILL GO THE SAME ROUTE. KNOWLEDGABLE WEST BANK SOURCES, MAINLY ACCOUNTANTS, BOOKKEEPERS AND POLITICAL FIGURES, ESTIMATE SMALL BUSINESS OPERATIONS HAVE SLIM PROFIT MARGIN (ABOUT 8 - 11 PERCENT OF TOTAL SALES) AND THAT AN EIGHT PERCENT VAT, IF COLLECTED, WOULD BE DIFFICULT TO PASS ON TO CUSTOMER AND COULD DRIVE SOME ESTABLISHMENTS OUT OF BUSINESS.

4. IN EFFORTS TO ACCOMMODATE SOME WEST BANKER CONCERNS, GOI HAS AGREED TO (1) ALLOW BASIC EXEMPTION FROM VAT FOR BUSINESSES DOING LESS THAN IL 500,000 ANNUAL TURNOVER, (2) PROVIDE FRO TALKS BETWEEN THE CUSTOMS OFFICE CHARGED WITH ENFORCING VAT AND BUSINESSMEN, (3) POSTPONE VAT COLLECTION UNTIL THE DECEMBER 1 DEADLINE, AND (4) RE-EVALUATE WEST BANK VAT IN FEBRUARY, 1977.

5. MANY WEST BANK BUSINESS ESTABLISHMENTS, ESPECIALLY SMALL OPERATORS, DO NOT KEEP NOR WISH TO KEEP DETAILED BUSINESS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 JERUSA 01626 241658Z

RECORDS. SUCH ENTITIES LOOK UPON PROSPECTIVE VAT RECORD-KEEPING REQUIREMENTS AS ONEROUS AND COSTLY AND ARE RESISTING THIS ASPECT OF VAT AS WELL. ANOTHER IMPORTANT PROBLEM, OF COURSE, LIES IN LEGAL CONSIDERATIONS. ACCORDING TO EXISTING INTERNATIONAL LAW WEST BANKERS CLAIM MILGOV CANNOT IMPOSE A TAX THAT HAS NOT EXISTED BEFORE THE OCCUPATION.

6. ALTHOUGH THERE HAVE BEEN RECENT DISCUSSIONSBETWEEN WEST

BANK MAYORS PARTICULARLY FREIJ OF BETHLEHEM AND THE MILGOV, NO MUTUALLY-ACCEPTABLE SOLUTION HAS BEEN FOUND. WE HAVE BEEN WARNED BY MANY WEST BANKERS INCLUDING SUCH MODERATE VOICES AS HIKMAT AL-MASRI OF NABLUS THAT UNLESS THE VAT IMPLEMENTATION IS FURTHER POSTPONED THERE WILL BE STRIKES AND DEMONSTRATIONS THROUGHOUT THE WEST BANK.

7. WITH THE APPROACH OF THE DECEMBER 1 DEADLINE, MORE PUBLIC ATTENTION WILL FOCUS ON THE VAT PROBLEM. IF MILGOV WISHES TO ACCOMMODATE THE MARGINAL BUSINESSES AND OBTAIN THE GREATEST TAX REVENUE WITH THE LEAST EFFORT, IT MAY DECIDE TO RAISE THE MINIMUM ANNUAL TURNOVER FIGURE TO IL 1 MILLION. WEST BANKERS HOPE FOR ANOTHER POSTPONEMENT OF VAT COLLECTION AND THREATEN ANOTHER GENERAL STRIKE JUST BEFORE THE CHRISTMAS PILGRIM SEASON. IN ANY EVENT, THE VAT SEEMS CERTAIN TO REMAIN A SORE POINT IN MILGOV-WEST BANK RELATIONS AND COULD EASILY RESULT IN MORE UNREST IN THE WEEKS AHEAD.
NEWLIN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WEST BANK, PUBLIC DEMONSTRATIONS, VALUE ADDED TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: coburnhl
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976JERUSA01626
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760438-0873
From: JERUSALEM
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761119/aaaaapsj.tel
Line Count: 134
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 JERUSALEM 1116
Review Action: RELEASED, APPROVED
Review Authority: coburnhl
Review Comment: n/a
Review Content Flags:
Review Date: 19 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 MAY 2004 by ShawDG>; APPROVED <13 SEP 2004 by coburnhl>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ISRAELI VAT ON THE WEST BANK AS DECEMBER 1 DEADLINE APPROACHES
TAGS: ECON, PINS, IS, JO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006